COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0882-11
Bill No.: Truly Agreed to and Finally Passed CCS for SS for SCS for HCS for HB 289
Subject: Economic Development; Taxation and Revenue.
Type: Original
Date: May 28, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	($119,499)	($300,871 to Greater than $1,300,871)	($303,984 to Greater than $1,303,984)
Total Estimated Net Effect on General Revenue Fund **	**($119,499)**	**($300,871 to Greater than $1,300,871)**	**($303,984 to Greater than $1,303,984)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
State Supplemental Downtown Development *	$0	$0	$0
State Supplemental Rural Development *	$0	$0	$0
Total Estimated Net Effect on Other State Funds **	**$0**	**$0**	**$0**

*** Income and expenses net to a zero fiscal impact.**
**** The fiscal impact of $180,000 for the satellite enterprise zones could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 29 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**(Unknown)**	**(Unknown) to Unknown**	**(Unknown) to Unknown**

FISCAL ANALYSIS

ASSUMPTION

Downtown Economic Stimulus Act and Rural Economic Stimulus Act;

In response to previous version of this proposal, officials from the **State Tax Commission**, **Office of the State Treasurer** and the **Department of Transportation** each assumed this proposal would not fiscally impact their respective agencies.

Officials from the **Department of Agriculture - Missouri Agriculture and Small Business Development Authority (MASBDA)** state they are charged with the approval of applications resulting from this proposal. MASBDA assumes that staff time requirements can be handled by current staff. However, MASBDA will probably incur some legal expense with each application received as the board will want a legal opinion prior to approving the application. The MASDBA assumes a cost from this proposal of $0 to $10,000 per year.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal has the following sections which would have fiscal impact;

Section 99.845. 8. Adds new language stating the municipality or authority must prove that the incremental increase in state sales tax revenue is from new sources as a result of the state TIF project for that particular area.

Section 99.939. 3. Allows the General Assembly to appropriate up to five percent of state sales tax increment portion of other net new revenues generated by the development projects to the "community development corporation revolving fund", beginning January 1, 2004. Also states that at no time shall the sum of grants exceed one million five hundred dollars annually. Other net new revenues are defined as, the amount of state sales tax increment or state income tax increment or the combination of the amount of each increment. This may increase Total State Revenue, but this section could have a negative impact on the General Revenue Fund.

Section 99.960. 1 and 4. Allows a municipality to submit an application to the Missouri Department of Economic Development for review and submission of recommendation to the Missouri Development Finance Board for approval of the use of other net new revenues to fund one or more development projects through state supplemental downtown development financing. Subsection 4 states that at no time shall the annual amount of other net new revenues approved for state supplemental downtown development financing exceed one hundred fifty million dollars. There is no impact to Total State Revenue for these sections.

Section 99.963. 2. Requires the Department of Revenue to submit the first one hundred fifty million dollars of other net new revenues to the treasurer for deposit into the state supplemental downtown development fund. There is no impact to Total State Revenue, but this section would have a negative impact of $150 million on the General Revenue Fund.

Section 99.1045. 1 and 4. Allows a municipality to submit an application to the Missouri agricultural and small business development authority for approval of the use of other net new revenues to fund one or more development projects through state supplemental rural development financing. Subsection 4 states that at no time shall the annual amount of other net new revenues approved for state supplemental rural development financing exceed twelve million dollars.

Section 99.1048. 2. Requires the Department of Revenue to submit the first twelve million dollars of other net new revenues to the treasurer for deposit into the state supplemental rural development fund. There is no impact to Total State Revenue, but this section would have a

ASSUMPTION (continued)

negative impact of $12 million on the General Revenue Fund.

This proposal also adds SB 620, which contains language to revise the BUILD, Community College New Jobs Training, and Enterprise Zones to the bill. Various provisions in this language could have a negative impact to Total State Revenues.

Officials from the **Department of Revenue (DOR)** state that municipalities will provide baseline year amount of state sales tax revenues and state income tax withheld on behalf of existing employees and that DOR will verify the information within 45 days. DOR assumes they will have to do programming on the withholding and MITS mainframe systems to be able to process new type returns and track and deposit the revenue into the special fund. MITS is estimated to take 2,768 hours (4 FTE for 4 month) $92,340 to handle the programming changes necessary. Withholding tax system mainframe changes will take an estimated 2,400 hours of programming at a cost of $80,064. Total costs for programming both systems will be $172,404. DOR will have to design a return that will be used by these businesses. There will be some printing costs involved, but costs would be unknown until actual applications are processed.

DOR states that withholding by location is the hardest to implement. Taxation could probably start by using a schedule(s) with the regular withholding return similar to what is submitted to the MO-JTC. Business Tax will need at least two Tax Processing Tech Is (each at $21,192 annually) to handle the verification, key entry and tracking.

DOR states that Business Tax is unsure what would be involved in operating the sales tax portion as DOR does currently for local sales tax. Business Tax would probably have to have staff that works with the project to verify their estimates for the base line, verify and perform the appropriate distributions and handle taxpayer errors and correspondence. It is estimated at this time One Tax Processing Tech I (at $21,192 annually) to handle these functions.

Customer Assistance anticipates that this legislation will create numerous questions from businesses and taxpayers within the approved development projects. One Tax Collection Tech I (at $21,192 annually) will be needed for every 24,000 additional calls received on this legislation and One Taxpayer Service Rep I (at $25,476 annually) for every 5,200 calls/walk ins received in our Tax Assistance Center.

In total, DOR anticipates costs of $337,905 in FY 2004 and roughly $165,000 per year thereafter.

ASSUMPTION (continued)

Oversight assumes the additional FTE requested by DOR may not be necessary depending upon the number of projects and their involvment, and therefore, have not reflected it in the fiscal note. Oversight assumes that if the volume of taxpayer and business inquiries is large, that DOR may request additional FTE through the normal budgetary process. Oversight has reflected the programming costs estimated by DOR in the downtown fund.

Officials from the **Department of Economic Development (DED)** state that with the revised amounts that could go to a project (up to 50%), there should be no impact on DED/GR due to the funding mechanism. This ensures that the money that will flow back to the project will be only new revenues to the state, also leaving a share of new revenues that will be an increase in revenues to the state. Accordingly, the previous cost of up to $150 million for this program is now a zero to unknown positive.

Due to the increased information in State TIF applications that must be reviewed by DED, and DED being given a more prominent role in the review and evaluation of the applications for MODESA based upon the floor amendments, DED has increased its personnel request from previous response to the fiscal note for 0882-05.

DED assumes it would need three Economic Development Incentive Specialist IIs (at $37,488 annually), a Clerk IV (at $26,450 annually), and an Economic Development Incentive Coordinator (at $43,308 annually) plus associated costs to administer their part of the program. DED assumes the total cost to administer the changes in the TIF law and the new MoDESA and MoRESA programs to be roughly $500,000 per year to the General Revenue Fund. The DED costs would need to be appropriated through General Revenue. A billing could be sent and costs recovered from the locals from the increment funds for a portion of the expenses. The reimbursement would be paid back to GR funds when received.

The Missouri Development Finance Board (MDFB) anticipates the need for one professional (at $55,000 annually) and one support person (at $28,500 annually), plus associated costs to perform the work required of the Board. The MDFB assumes a total cost of roughly $170,000 in each of the three fiscal years in the fiscal note. All cost for MDFB are assumed to be local because they are assessed and re-payed.

In response to a similar proposal from last year, the MDFB assumed they could administer the program with one additional FTE. Therefore, **Oversight** has reduced the expenses of the MDFB to reflect the one professional FTE at costs anticipated on last years' fiscal notes.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist IIs to correspond to other such positions within DED. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight assumes that the MoDESA program will annually transfer up to $150 million of the new state revenues received as a result of the projects back to the local political subdivisions, much like the current tax increment financing programs. It is indeterminable whether the developments within the projects would have occurred elsewhere in the state, if not for the implementation of this program. If the development would have occurred elsewhere in the state if not for this proposal, then MoDESA will result in a loss of up to $150 million in state revenues annually that the state would have been able to keep if not for this proposal. If the developments would not have occurred in the state if not for this program, then the state's loss of up to $150 million in new revenues that goes back to the local projects will be offset by the up to $150 million in new revenues the state may receive because of this proposal.

Missouri Rural Economic Stimulus Act;

Officials from DED state the bill would provide funding to development projects which are defined as renewable fuel production facilities or projects. It authorizes the creation of an "authority" that will oversee the projects in a development area/district. 99.1045.3, RSMo, would require DED to review the project to make sure the state benefit exceeds the cost of the project and issue a certificate of approval. DED can recover the cost of the work from the authority. 99.1048, RSMo, says DED administers the State Supplemental Rural Development Fund and disburses funds each year.

DED anticipates the funding will come from funds raised by this bill but that funding will need to be appropriated from general revenue (GR) each year to cover the costs. Any funds paid for DED and DOR services would be recovered after the fact and repaid to GR. It is uncertain of the volume of development districts that will be created or projects and the level of appropriation that would be made to the State Supplemental Rural Development Fund. Therefore the volume of work is unknown. DED would anticipate the need for professional contract help to prepare economic analysis, one program person to coordinate and possibly some clerical assistance. Funding for forms and normal operating costs would be incurred. Additional printing costs would be incurred for preparation of annual reports. Costs listed are estimated and could be lower or higher. The total cost is just an estimation and could vary greatly depending on participation statewide.

ASSUMPTION (continued)

Oversight assumes that the MoRESA program will annually transfer up to $12 million of the new state revenues received as a result of the projects back to the local political subdivisions, much like the current tax increment financing programs. Again, it is indeterminable whether the developments within the projects would have occurred elsewhere in the state, if not for the implementation of this program. If the development would have occurred elsewhere in the state if not for this proposal, then MoRESA will result in a loss of up to $12 million in state revenues annually that the state would have been able to keep if not for this proposal. If the developments would not have occurred in the state if not for this program, then the state's loss of up to $12 million in new revenues that goes back to the local projects will be offset by the up to $12 million in new revenues the state may receive because of this proposal.

Retention of Plant in Hazelwood, (Sections 100.710, 100.840, 100.850, 135.276, 135.277, 135.279, 135.281, 135.283, & 178.892);

In response to a similar proposal from this year, officials from the **Department of Revenue (DOR)** assumed that the provisions in this part of the legislation will be administered by the Department of Economic Development. DOR did not anticipate there will be significant number of new credits claimed and will therefore not request additional FTE.

In response to a similar proposal from this year, officials from the **Office of Administration - Budget and Planning (BAP)** had the following comments regarding the fiscal impact of the proposal.

Section 100.710. Revises the definition of eligible industry and new job. This section also adds the definition of essential industry and targeted industry to the state statute used to administer the BUILD program. This change may have a negative impact on Total State Revenue.

Section 135.277. Establishes language that would allow one-half of the Missouri taxable income attributed to an approved retained business facility be exempt from taxation. This will have a negative impact on Total State Revenue.

Section 135.279. 1. Allows any taxpayer that operates an approved retained business facility in an enterprise zone numerous ways to receive a tax credit through the enterprise zone program. First it allows a tax credit for each retained business facility employee in an amount equal to $400, and $500 credit for each additional job over 2,000. Next this subsection allows a $400 credit for each retained business facility employee that is a resident of an enterprise zone. It also allows an approved retained business facility to receive credits for training expenses for each

trainee who is a resident of an enterprise zone. The business may also receive a credit for qualifying investments. This will have a negative impact on Total State Revenue.

Section 135.281. Allows an income tax refund to any taxpayer operating an approved retained business facility in an enterprise zone, if the amount of tax credits certified for the taxpayer exceeds the company's total Missouri tax on taxable income by an amount equal to at least one million dollars. The maximum refund amount may not exceed $2 million per year for five successive years. This will have a negative impact on Total State Revenue

Section 178.892. Adds the definition of an essential industry and existing job to the state statute used to administer the Community College New Jobs Training. This may have a negative impact on Total State Revenue.

Officials from the **Department of Economic Development (DED)** state this part of the proposal amends the "BUILD" (Business Use Incentives for Large Scale Development) Program to authorize its use for retention projects so long as the project is to retain an "essential industry." Essential industry is one that is critical to the state and a targeted industry, with at least 2,000 jobs, will make at least a $500 million new investment at the project, is located in a geographic area that currently is Hazelwood, and will retain 2,000+ jobs at the project for the life of the BUILD certificates (10-15 years). The nearly exhausted cumulative bond cap will be replaced with an annual tax credit cap of $11 million.

DED states the proposal also adds new sections to Enterprise Zone law to allow tax credits, tax exemption and refunds to "essential industries" upon an agreement with the DED. Again, essential industry is one critical to the state and a targeted industry, with at least 2,000 jobs, will make at least a $500 million new investment at the project, is located in an enterprise zone that includes a geographic area that currently is Hazelwood, and will retain 2,000+ jobs at the project for 10 years. Jobs must pay better than average wage of county.

DED states that local incentives must be provided and the company must be considering another state for the project. Tax credits otherwise for new jobs under EZ is for retained jobs. Credits for investment are only for new investment. Refund mechanism allows a $2 million per year refund for 5 consecutive years.

DED states the proposal also amends the Community College New Jobs Training Program to authorize its use for retention projects so long as the project is to retain an "essential industry". Again, essential industry is one critical to the state and a targeted industry, with at least 2,000 jobs, is located in a geographic area that currently is Hazelwood, and will retain 2,000+ jobs at

<u>ASSUMPTION</u> (continued)

the project for the life of the CCNJT certificates (8 years). Jobs must pay better than average wage of county.

The provisions of the bill will expire unless a project has been approved by DED by December 31, 2005. If a project is so approved, provisions will expire January 1, 2020 - gives a full 15 years for a BUILD bond issuance.

It is estimated by DED that agreements entered into with the taxpayer under the provisions of this bill would result in $3 million to $3.5 million per year in incentives each year over a period of ten years, beginning no sooner than FY2005.

DED states that it is notable that the taxpayer has already announced its intention to close the Hazelwood facility in 2005 and the loss of the jobs at the plant would result in a very large negative impact on the state. Without an incentive agreement to keep the Hazelwood plant open, Total State Revenues (TSR) would decline due to the loss of jobs, supported jobs, etc. DED has not factored this into their estimated costs.

DED assumes no new staff will be needed as a result of this part of the proposal. DED assumes tax incentives will first affect TSR during FY2005, although it could begin in a later fiscal year. DED assumes the amount will be $3 million in FY05 and $3.5 million per year thereafter for the remainder of approximately 10 years. DED assumes this will be offset by some positive but indeterminable economic benefits to the state, which are not projected in this fiscal note.

Officials from the **City of Hazelwood** and **St. Louis County** did not respond to our request for fiscal impact.

According to Subsection 135.279.4, the taxpayer in Hazelwood must choose between the tax benefits they are already receiving under Sections 135.220, 135.225, 135.235, 135.245 or 135.110 and the benefits described in the new sections of the proposal (135.276 through 135.283). **Oversight** does not know what benefits the taxpayer is already receiving under current law, so determining how much more of an impact the enterprise zone benefits in this proposal will have is not possible.

Oversight was unable to determine, from the information provided, how DED arrived at their estimated cost of $3.5 million per year. Therefore, based upon the lack of information available and the upon the significance of the three programs that were adjusted to include the taxpayer in Hazelwood, Oversight assumes the fiscal impact to the state would be an unknown loss of state revenue in excess of $1 million per year for fifteen years. This loss is dependent upon the

taxpayer accepting the terms of the legislation, which include retaining employment for 2,000 employees for at least five years, the average wage of the employees exceeding the average wage paid within St. Louis County, and the taxpayer investing a minimum of $500 million in the economic development project by the end of the third year.

Oversight will range the fiscal impact of the proposal from $0 (if the taxpayer does not accept the terms of the proposal and since the taxpayer has until January 1, 2006 to act upon the proposal) to (Unknown - Greater than $1 million). Oversight has not shown the potential positive fiscal impact that may result from these economic development incentives. Oversight assumes the fiscal impact would not be realized before FY 2005. Oversight also assumes the City of Hazelwood and St. Louis County may also include incentives for this taxpayer but has not reflected them on the fiscal note.

Local business license fees (Section 71.620);

In response to a similar proposal from this year, officials of the **City of Belton** assumed no fiscal impact.

Oversight assumes that if a village or a city of the fourth class is currently charging an annual license tax in an amount greater than $10,000, this proposal would create a loss in revenue to that City. Oversight also assumes that if a city is collecting a business license fee from a investment funds service corporation of more than $25,000, this proposal would create a loss to that city.

The loss would be in an amount that would be the difference between the limit of $10,000 or $25,000 and the amount that the City is currently taxing. Oversight assumes that some cities would have no fiscal impact, therefore, Oversight for the purposes of this fiscal note will show fiscal impact to local governments as $0 or (Unknown). Oversight assumes no state fiscal impact.

Satellite Enterprise Zones in St. Joseph, Independence and Springfield (Section 135.207);

Officials from DED state the creation of an additional satellite enterprise zone would not have enough immediate impact on DED to warrant additional personnel or expenditures. At some point in the future, enough additional enterprise zone credits could be issued that would require an additional person. At that time, DED would request additional funding.

ASSUMPTION (continued)

DED states the average cost for each satellite enterprise zone is $60,000 to unknown. The costs can vary greatly based on the number of qualifying businesses within the satellite zone.

In response to other legislation that established satellite enterprise zones, officials from the **Department of Insurance (INS)** stated the designation of an additional satellite enterprise zone will increase the areas that receive enterprise zone tax credits. If insurance companies invest or expand into the new enterprise zone, they will be eligible for additional tax credits, reducing premium tax revenue. Premium tax revenue is split evenly between General Revenue and the County Foreign Insurance fund which is later distributed to school districts. INS was unable to project how much in additional tax credits may be generated and what effect it will have on premium tax collections. Fiscal impact will be an unknown loss of revenue to GR and the County Foreign Insurance fund.

Oversight assumes the local taxing and governing authorities may grant an exemption (in whole or in part) of property taxes to new or expanding businesses after holding the required public hearings on the matter, therefore, has estimated the local impact of the new satellite enterprise zone as zero. The fiscal note does not reflect any indirect positive result that may occur because of the tax credits issued. Oversight has utilized DED's estimated average of $60,000, however, actual credits earned and utilized could vary greatly.

Industrial Development Projects (Sections 100.010 - 100.180);

In response to a similar proposal from this year, officials from the **Department of Economic Development** and the **Office of Administration** - Divisions of **Design and Construction**, **Budget and Planning** and **Accounting** each stated this proposal would not have a fiscal impact on their respective agencies.

In response to a similar proposal from this year, officials from the **City of Springfield** stated that a feasibility study will cost from $5,000 to $20,000 and a city would charge a minimum of two percent for administering it, or from $100 to $400.

In response to similar legislation from last year, officials from the **City of Kansas City (CKC)** stated the bill requires no additional cost to the City unless they wish to authorize a project which would involve the issuance of revenue bonds or the conveyance of fee interest in property to the City. If the City wishes to authorize such a project, the bill would add the new and additional requirements that the impact of the project on real and personal property taxes be estimated.

ASSUMPTION (continued)

CKC stated they currently prepare a plan for such projects. The bill requires that plan to be more specific and detailed, which would entail only a nominal increase in cost. The City currently holds public hearings before such projects. The other additional costs that would be incurred by the City, if the bill is adopted and the City elects to authorize a project, would be estimating the impact of a project on tax revenue to all the taxing jurisdictions. If the project is a large one, that cost to the City could be substantial ($10,000 or more). If it is a small, limited project, the City assumes the written estimate could be prepared for something less than $10,000.

Oversight assumes this part of the proposal would result in additional costs to local governments that have industrial development projects, if those projects involve the issuance of revenue bonds or involves the conveyance of a fee interest in property. Oversight assumes additional cost would result from the additional research and reporting that would be required and the amount is unknown but minimal to each local government, but may not be minimal in the state-wide aggregate.

Property Taxes and TIF in relation to St. Louis School District (Section 162.1100);

In response to a similar proposal from this year, officials from the **Department of Economic Development (DED)** stated this proposal modifies the applicability of certain property taxes to certain tax increment financing projects. DED assumed the proposal would only affect local tax increment financing, and therefore, would have no fiscal impact on their agency.

In response to a similar proposal from this year, officials from the **St. Louis Public Schools** assumed this proposal would not fiscally impact their agency.

Officials from the **City of St. Louis** did not respond to our request for fiscal impact.

Oversight assumes that since this proposal states that effective January 1, 2002, the transitional district's operating levy will not be subject to any new or existing tax increment financing (with one exception), the proposal could result in additional income to the transitional school district. Oversight has reflected this as a fiscal impact of $0 to Unknown.

Oversight assumes that since the proposal requires the Department of Revenue to annually submit the first $150 million of other net new revenues generated by developments from the MoDESA plan into the state supplemental downtown development fund, as well as the first $12 million of other net new revenues generated by developments from the MoRESA program into the state supplemental rural development fund, that these monies would not be initially deposited

ASSUMPTION (continued)

into General Revenue, but rather go directly into their respective funds.

Oversight acknowledges that the proposal is designed to stimulate economic development within the state with the purpose of generating additional future state revenues. However, Oversight cannot determine or estimate the magnitude of the future benefit the state may realize because of these programs.

This proposal may result in a loss of Total State Revenue.

FISCAL IMPACT - State Government	FY 2004	FY 2005	FY 2006
GENERAL REVENUE			
Costs - DED			
Personal Service (2 FTE)	($59,585)	($73,289)	($75,122)
Fringe Benefits	($24,114)	($29,660)	($30,402)
Expense and Equipment	($35,800)	($17,922)	($18,460)
Total Costs - DED	($119,499)	($120,871)	($123,984)

Loss - Satellite Zone in Springfield *	$0	($60,000)	($60,000)
Loss - Satellite Zone in Independence *	$0	($60,000)	($60,000)
Loss - Satellite Zone in St. Joseph *	$0	($60,000)	($60,000)
Loss - various tax credit programs restructured for a taxpayer in Hazelwood	$0	$0 or (Unknown Greater than $1,000,000)	$0 or (Unknown Greater than $1,000,000)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND *	**($119,499)**	**($300,871 to Greater than $1,300,871)**	**($303,984 to Greater than $1,303,984)**

*** Note: the fiscal impact of the satellite enterprise zones could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

STATE SUPPLEMENTAL DOWNTOWN DEVELOPMENT FUND

Income - State retains 50% or more of the Incremental state sales and income taxes from the MoDESA projects	$0	$0 to $150,000,000	$0 to $150,000,000
Income - DED is allowed to charge a fee and recover costs to reimburse the state for COA, DOR & DED expenses from local projects	$393,783	$208,572	$214,018
Costs - Department of Revenue Programming charges	($172,404)	$0	$0
Costs - MDFB			
Personal Service (1 FTE)	($50,000)	($51,250)	($52,531)
Fringe Benefits	($20,235)	($20,741)	($21,259)

Expense and Equipment	($21,000)	($21,630)	($22,280)
Total Costs - MDFB	($91,235)	($93,621)	($96,070)
Costs - DED			
Personal Service (2 FTE)	($63,098)	($64,676)	($66,294)
Fringe Benefits	($25,536)	($26,174)	($26,830)
Expense and Equipment	($41,510)	($24,101)	($24,824)
Total Costs - DED	($130,144)	($114,951)	($117,948)
Transfer Out - to various local economic development projects.	$0	$0 to ($150,000,000)	$0 to ($150,000,000)
ESTIMATED NET EFFECT TO THE STATE SUPPLEMENTAL DOWNTOWN DEVELOPMENT FUND	**$0**	**$0**	**$0**

STATE SUPPLEMENTAL RURAL DEVELOPMENT FUND

Income - First $12 million of MoRESA income to be distributed to local projects	$0	$0 to $12,000,000	$0 to $12,000,000
Income - DED is allowed to charge a fee and recover costs to reimburse the state for COA, DOR & DED expenses from local projects	$146,797 to $156,797	$170,776 to $180,776	$175,673 to $185,673
Costs - MASBDA	$0 to ($10,000)	$0 to ($10,000)	$0 to ($10,000)
Costs - DED			
Personal Service (1 FTE)	($26,291)	($32,338)	($33,147)
Fringe Benefits	($10,640)	($13,087)	($13,415)
Expense and Equipment	($109,866)	($125,351)	($129,111)
Total Costs - DED	($146,797)	($170,776)	($175,673)

Transfer Out - to various local economic development projects.	$0	$0 to ($12,000,000)	$0 to ($12,000,000)
ESTIMATED NET EFFECT TO THE STATE SUPPLEMENTAL RURAL DEVELOPMENT FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2004	FY 2005	FY 2006
LOCAL POLITICAL SUBDIVISIONS			
Transfer In - from State Supplemental Downtown Development Fund - to reimburse project development costs	$0	$0 to $150,000,000	$0 to $150,000,000
Transfer In - from State Supplemental Rural Development Fund - to reimburse project development costs	$0	$0 to $12,000,000	$0 to $12,000,000
Costs - project development costs for MoDESA and MoRESA	(Unknown)	(Unknown)	(Unknown)
Costs - new requirements for industrial development projects (Sections 100.010 - 100..180)	(Unknown)	(Unknown)	(Unknown)
Loss to Certain Cities from limitation on license tax (Section 71.620)	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT TO THE LOCAL POLITICAL SUBDIVISIONS	**(Unknown)**	**(Unknown) to Unknown**	**(Unknown) to Unknown**

FISCAL IMPACT - Small Business

This proposal would impact small businesses that are within a designated development areas as defined by the municipality's authorities as well as businesses in the newly created satellite zones.

DESCRIPTION

MISSOURI DOWNTOWN ECONOMIC STIMULUS ACT

This proposal:

(1) Allows any municipality to create a Downtown Economic Stimulus Authority, as long as certain findings are made; however, municipalities within St. Louis County are required to form a countywide downtown economic stimulus authority;

(2) Defines "central business district" as that area which is locally known as the "downtown" with at least 50% of buildings being 35 years or older and a median household income of under $62,000;

DESCRIPTION (continued)

(3) Defines "other net new revenues" as a percentage of state sales taxes and state income taxes generated within the development area. Other net new revenues are the state's contribution to the downtown development projects. The state income tax portion is based on the salaries and wages paid by businesses in the development area to new employees in new jobs.

The contribution of state sales taxes is the additional state sales tax revenue collected by businesses in the development area in a given year as compared to what was collected in the baseline year. For businesses that relocate to the development area, the state sales tax contribution is the additional state sales tax revenue collected in the development area as compared to what was collected in the year prior to relocating to the development area;

(4) Requires the municipality to deposit 50% of the Economic Activity Taxes (EATS) generated within the development area in its special allocation fund. EATS are the additional revenue generated by taxes within the development area that are greater than the taxes which were generated in the same development area in the baseline year. EATS do not include personal property taxes, hotel/motel taxes, licenses, fees, or special assessments;

(5) Prohibits funding from being used for the construction, maintenance, or operation of any sports stadium or arena that is used for spectator events and seats over 10,000;

(6) Requires that each authority be governed by a board of five to 14 commissioners;

(7) Prohibits lawsuits protesting the creation of an authority or the approval of a development plan, project, or area or a tax being levied from being brought more than 90 days after the effective date of the ordinance in question;

(8) Outlines the powers of an authority. Authorities are prohibited from exercising eminent domain;

(9) Requires Kansas City, St. Louis City, and St. Louis County to approve a disadvantaged business enterprise program for implementation by any authority and explains the requirements of the program;

(10) Explains how an authority may dispose of property and discusses how fair market value will be determined;

(11) Explains the requirements of the development plan;

DESCRIPTION (continued)

(12) Allows a municipality or an authority to issue bonds for the development project but prohibits the state from issuing bonds for the development project;

(13) Explains the manner in which ad valorem taxes and payments in lieu of taxes will be divided among the affected taxing districts;

(14) Requires Payments in Lieu of Taxes (PILOTS) that are attributable to the increase in the current equalized assessed valuation of real property that is over the initial equalized assessed valuation to be deposited into the municipality's special allocation fund;

(15) Requires that, if the development plan includes an endowment of positions at certain institutions of higher education, the endowment first be funded with a private donation to the institution in an amount equal to at least 50% of the total endowment. The remaining portion of the endowment can be paid from local or state funds associated with the development project;

(16) Allows municipalities to apply for money from the State Supplemental Downtown Development Fund by submitting an application to the Missouri Development Finance Board;

(17) Prohibits the amount of state supplemental downtown development financing approved for a project from being greater than the projected state benefit of the development project;

(18) Prohibits the amount of money available for disbursement from the State Supplemental Downtown Development Fund from exceeding $150 million annually;

(19) Prohibits development projects from using both state supplemental downtown development financing and tax increment financing simultaneously;

(20) Allows the reasonable costs incurred by the departments of Economic Development and Revenue and the Missouri Development Finance Board for processing applications for funding to be considered allowable development project costs;

(21) Establishes the State Supplemental Downtown Development Fund, which is administered by the Department of Economic Development. The fund will consist of the first $150 million of other net new revenues generated annually by the development projects, fees charged for salaries of state employees that are attributable to the development projects, and any gifts or other contributions;

(22) Requires the Department of Revenue to annually submit the first $150 million of other net

DESCRIPTION (continued)

new revenues generated by the development projects to the State Treasurer, who will deposit them into the fund;

(23) Requires the Department of Economic Development to annually disburse financing from the fund in amounts determined by the certificates of approval for projects. If the revenues in the fund are not sufficient to equal the amounts indicated on certificates of approval, the department will disburse revenues on a pro rata basis to all approved projects;

(24) Prohibits municipalities from obligating state funds prior to receiving a certificate of approval from the Department of Economic Development;

(25) Requires a joint committee of the General Assembly to review the act every five years, beginning in 2008. A report must be issued to the Speaker of the House of Representatives and

the President Pro Tem of the Senate no later than February 1 following the year in which the review is conducted;

(26) Prohibits new applications for development financing from being approved after January 1, 2013;

(27) Allows applications for development funding to be approved prior to August 28, 2003, if the project is located in a county for which assistance has been requested by the Governor due to a natural disaster of major proportions that occurred between May 1 and May 10, 2003;

(28) Allows the Missouri Development Finance Board to approve up to two development project applications in Kansas City prior to December 31, 2006. These projects will receive up to 50% of the incremental increase in all general revenue sales taxes;

(29) Requires each municipality to submit an annual report concerning the status of the development plan to the Director of the Department of Economic Development. The department and the Missouri Development Finance Board will review all reports; and

(30) Requires the Director of the Department of Economic Development to submit a report to the Governor, the Speaker of the House of Representatives, and the President Pro Tem of the Senate summarizing the information submitted by the municipalities. This report must be submitted by April 30 of each year.

DESCRIPTION (continued)

COMMUNITY DEVELOPMENT CORPORATION REVOLVING FUND

The bill:

(1) Requires Kansas City, St. Louis City, St. Louis County, Boone County, and all the municipalities within Boone County to establish a community development corporation revolving fund for the purpose of providing funds to community development corporations to stimulate economic development, housing, and other public benefits leading to the development of economically sustainable neighborhoods;

(2) Requires that the fund be administered by a board with six members appointed by the mayor

or chief executive officer of the municipality;

(3) Allows the General Assembly to appropriate up to 5% of the state sales tax increment portion of other net new revenues generated by development projects certified for state supplemental downtown development financing to be deposited into the State Supplemental Downtown Development Fund for the purpose of providing grants to these cities and counties for community development corporation revolving fund programs; and

(4) Prohibits the sum of the grants from exceeding $1.5 million annually.

MISSOURI RURAL ECONOMIC STIMULUS ACT

The bill:

(1) Allows municipalities to create a Rural Economic Stimulus Authority;

(2) Requires that each authority be governed by a board of five to 14 commissioners;

(3) Prohibits funding under the act from being used for the construction, maintenance, or operation of any sports stadium or arena that is used for spectator events and seats over 10,000;

(4) Defines "development project" as a project that creates a renewable fuel production facility;

(5) Prohibits lawsuits protesting the creation of an authority or the approval of a development plan, project, or area or a tax being levied from being brought more than 90 days after the effective date of the ordinance in question;

DESCRIPTION (continued)

(6) Outlines the powers of an authority. Authorities are prohibited from exercising eminent domain;

(7) Explains how the authority may dispose of property and discusses how fair market value will be determined;

(8) Explains the requirements of the development plan;

(9) Allows the municipality or the authority to issue bonds for a development project but

prohibits the state from issuing bonds for a development project;

(10) Establishes the manner in which ad valorem taxes and payments in lieu of taxes will be divided among the affected taxing districts;

(11) Requires Payments in Lieu of Taxes (PILOTS) that are attributable to the increase in the current equalized assessed valuation of real property that is over the initial equalized assessed valuation to be deposited into the municipality's special allocation fund;

(12) Requires the municipality to deposit the Economic Activity Taxes (EATS) generated within the development area in its special allocation fund. EATS are the additional revenue generated by taxes within the development area that are greater than the taxes which were generated in the same development area in the baseline year. EATS do not include personal property taxes, hotel/motel taxes, licenses, fees, or special assessments;

(13) Requires that, if the development plan includes an endowment of positions at certain institutions of higher education, the endowment first be funded with a private donation to the institution in an amount equal to at least 50% of the total endowment. The remaining portion of the endowment can be paid from local or state funds associated with the development project;

(14) Allows municipalities to apply for money from the State Supplemental Rural Development Fund by submitting an application to the Missouri Agricultural and Small Business Development Authority;

(15) Prohibits the amount of state supplemental rural development financing approved for a project from being greater than the projected state benefit of the development project;

DESCRIPTION (continued)

(16) Prohibits the amount of other net new revenues approved for disbursement from the State Supplemental Rural Development Fund from exceeding $12 million annually;

(17) Allows the reasonable costs incurred by the departments of Economic Development and Revenue and the Missouri Agricultural and Small Business Development Authority for processing applications for funding to be considered allowable development project costs;

(18) Prohibits development projects from using state supplemental rural development financing and tax increment financing simultaneously;

(19) Establishes the State Supplemental Rural Development Fund, which is administered by the Department of Economic Development. The fund will consist of the first $12 million of other net new revenues generated annually by the development projects, fees charged for salaries of state employees that are attributable to the development projects, and any gifts or other contributions;

(20) Requires the Department of Revenue to annually submit the first $12 million of other net new revenues generated by the development projects to the State Treasurer, who will deposit them into the fund;

(21) Requires the Department of Economic Development to annually disburse financing from the fund in amounts determined by the certificates of approval for projects. If the revenues in the fund are not sufficient to equal the amounts indicated on certificates of approval, the department will disburse revenues on a pro rata basis to all approved projects;

(22) Prohibits municipalities from obligating state funds prior to receiving a certificate of approval from the Department of Economic Development;

(23) Requires a joint committee of the General Assembly to review the act every five years, beginning in 2008. A report must be issued to the Speaker of the House of Representatives and the President Pro Tem of the Senate no later than February 1 following the year in which the review was conducted;

(24) Requires each municipality to submit an annual report concerning the status of the development plan to the Director of the Department of Economic Development. The department and the Missouri Agricultural and Small Business Development Authority will review all reports; and

<u>DESCRIPTION</u> (continued)

(25) Requires the Director of the Department of Economic Development to submit a report to the Governor, the Speaker of the House of Representatives, and the President Pro Tem of the Senate summarizing the information submitted by the municipalities. This report must be submitted by April 30 of each year.

AGRICULTURAL AND SMALL BUSINESS DEVELOPMENT AUTHORITY

The bill defines a new term, "value added agricultural products."

TAX CREDITS FOR BUSINESS-USE INCENTIVES FOR LARGE-SCALE DEVELOPMENT (BUILD)

The bill:

(1) Limits the amount of these tax credits to $11 million annually;

(2) Removes the $75 million limit on revenue bonds the Missouri Development Finance Board can sell;

(3) Defines "essential industry" as a targeted industry located in Hazelwood. The industry must meet certain criteria including having maintained at least 2,000 jobs in the four years prior to applying for tax credits, retain a certain level of employment, and invest a minimum of $500,000,000 by the end of the third year following the issuance of these tax credit certificates; and

(4) Allows existing jobs in an essential industry to be considered new jobs.

AUTO MANUFACTURING PLANT

The bill:

(1) Defines a "retained business facility" as one in which the taxpayer agrees to make a capital investment of at least $500 million during a specified time period, maintains at least 2,000 employees per year for 10 years, agrees to pay an average wage that exceeds the average wage of St. Louis County, and has received commitments for local economic incentives;

<u>DESCRIPTION</u> (continued)

(2) Exempts 50% of the Missouri taxable income attributed to an approved retained business facility in Hazelwood from taxation;

(3) Allows the following tax credits for the facility for 10 years:

(a) A $400 or $500 tax credit for each employee retained by the facility;

(b) A $400 tax credit for each year in which a retained employee lives in Hazelwood. This tax credit can be prorated for employees who have not lived in Hazelwood for a full year;

(c) An annual $400 tax credit for each retained employee who fits the criteria for "a person difficult to employ." This tax credit can be prorated for employees who have not worked for the facility for a full year;

(d) A tax credit equal to 80% of the training expenses that are in excess of $400 per trainee, if the trainee is a resident of Hazelwood or is defined as "a person difficult to employ." This tax credit cannot exceed $400 per trainee; and

(e) A tax credit equal to 10% of the first $10,000 of qualifying investment, a 5% tax credit on the next $90,000 of qualifying investment, and a 2% tax credit on all remaining qualifying investments;

(4) Allows a tax refund to be issued to the facility in Hazelwood, but only if the certified tax credits exceed the company's total Missouri tax liability by at least $1 million. In this case, a portion of the tax credits earned will be considered an overpayment of taxes and may be refunded to the company. The maximum amount of the refund cannot exceed $2 million a year;

(5) Prohibits the facility from taking advantage of the tax exemption for new businesses in enterprise zones, tax credits for a new or expanded business facility in an enterprise zone, tax credits for training employees, tax credits for new or expanded business facilities, or the income tax refund for establishing a new business facility in an enterprise zone if it uses the tax exemption, tax credits, and tax refund authorized by the bill;

(6) Allows the facility to participate in the New Jobs Training Program; and

(7) Requires any contract entered into between the facility and the Department of Economic Development to include a requirement that the company maintain operations at the facility for at least 10 years at a particular employment level. The contract must also include provisions for

DESCRIPTION (continued)

repayment of incentives upon breach of contract.

SUPER-TAX INCREMENT FINANCING

The bill:

(1) Authorizes retail sales tax to be included in the calculation of "new state revenues" for the purpose of state tax increment financing (Super-TIF) under certain circumstances;

(2) Expands what is required on a Super-TIF application; and

(3) Specifies how economic activity taxes and new state tax revenues will be calculated for a national headquarters that has moved from another state to Missouri.

INDUSTRIAL DEVELOPMENT CORPORATIONS

For any industrial development plan approved after August 28, 2003, that authorizes the issuance of revenue bonds or the conveyance of a fee interest in property to the municipality, the bill requires that the project plan also include a statement identifying each taxing district affected by the project, except property associated with railroads, street railroads, bridges, and express and public utilities that are assessed by the State Tax Commission. The project plan must also include the most recent equalized assessed valuation of the real and personal property included in the project and an estimate as to the equalized assessed valuation of real and personal property included in the project after development. A cost-benefit analysis is also required, as is the identification of any payments in lieu of taxes or other payments expected to be made by the lessee of the project.

The bill requires that the county in which the municipality is located and any school district be notified of any hearing regarding an industrial development project and invited to testify to the governing body about the project.

The bill requires that the current assessed value of all property within the taxing district be included in the aggregate valuation of assessed property and that this amount be used for the purpose of determining the local government's debt limitation.

<u>DESCRIPTION</u> (continued)

Current law requires municipalities to file a report with the Department of Economic

Development regarding the revenue bonds issued in the previous year. The bill requires the report to also include a general description of the property purchased by the municipality with bond proceeds.

TAX CREDITS FOR INVESTMENT IN SMALL BUSINESSES

The bill:

(1) Redefines the term "community development corporation"; and

(2) Requires the Department of Economic Development to allocate up to 10% of its total appropriation for community development corporations to the community development corporation association for costs associated with the activities of the association.

TAX CREDITS FOR INVESTMENTS IN CERTIFIED CAPITAL COMPANIES (CAPCO)

The bill allows a qualified investing entity to make qualified investments on behalf of a certified capital company. A qualified investing entity must be a wholly owned subsidiary of a certified capital company, so it would be making qualified investments on behalf of its parent company. In addition, with regard to CAPCO, the bill:

(1) Modifies the definitions of "capital in a qualified Missouri business" and "qualified Missouri business";

(2) Defines the term "qualified investing entity";

(3) Removes the limitation on gross sales of a qualified Missouri business in a distressed community. Current law states that these businesses cannot have gross sales in excess of $5 million during the most recently completed fiscal year; and

(4) Requires that all qualifying investments made by a qualifying investment entity receive prior approval from the Department of Economic Development before they can be considered actual qualifying investments.

TRANSITIONAL SCHOOL DISTRICT

The bill exempts the operating levy of the transitional school district (which has the same boundaries as the St. Louis City School District) from being subject to a certificate of tax abatement and further exempts the operating levy or its sales tax equivalent amount from tax increment financing in connection with any redevelopment plan adopted by the City of St. Louis on or after January 1, 2004.

SATELLITE ENTERPRISE ZONES

The bill requires the Department of Economic Development to designate satellite enterprise zones in St. Joseph, Independence, and Springfield.

OTHER

The bill:

(1) Prohibits investment funds services corporations from being required to pay an annual license fee in excess of $25,000 after December 31, 2003; and

(2) Prohibits any village with fewer than 1,300 inhabitants from imposing a business license tax in excess of $10,000 per license.

This proposal contains an emergency clause.

This legislation is not federally mandated. It may, however, duplicate the state TIF program and it may require rental space for DED's new employees.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
State Tax Commission
Department of Transportation
Department of Agriculture
Office of the State Treasurer
Department of Economic Development
Department of Insurance
St. Louis City Public Schools
City of Belton
City of Springfield
City of Kansas City

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Mickey Wilson

MICKEY WILSON, CPA
DIRECTOR
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